

COPYRIGHT—CATV AND THE SCOPE OF “PERFORMANCE,”—*Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968). United Artists Television, respondent, was the owner of copyrighted motion picture films which were licensed for broadcast to five independent television stations. Of these stations, three were located in Pittsburgh, Pa., one in Wheeling, W. Va., and one in Steubenville, Ohio. The licenses in some cases expressly prohibited the use or retransmission of the copyrighted films by community antenna systems (CATV). Fortnightly Corp., petitioner, owned two CATV systems that had subscribers in the Clarksburg and Fairmont, W. Va. areas. Through the use of sensitive antenna towers tuned for and directed at a specific station for maximum reception, these systems picked up the performances of the copyrighted films that were broadcast by the five stations. The signals received were then retransmitted, after some form of amplification or change in the carrier wave (channel number/frequency), through coaxial cables to CATV customers for a monthly service charge. All signals (program content) received, both copyrighted and non-copyrighted, were retransmitted to the customers without change. Fortnightly did not originate any programming nor did it substitute its own advertising. The use of a CATV system was necessary for acceptable television reception in the two areas because there were no local stations (at the time of the original suit) and because mountainous terrain blocked the signals from the five stations.

United Artists instituted and won a copyright infringement action against Fortnightly in the District Court, which was affirmed by the Court of Appeals.¹ Both courts held that Fortnightly had made a “public performance” of the copyrighted films as protected by sections 1 (c) and (d) of the Copyright Act.² However, the trial court used a mechanical “electronic reproduction and transmission” test to define the statutory words “to perform,”³ while the Court of Appeals placing great reliance on *Buck v. Jewell-LaSalle Realty Co.*,⁴ decided that there had been a performance on the ground that

¹ *United Artists Television, Inc. v. Fortnightly Corp.*, 255 F. Supp. 177, 198-99 (S.D.N.Y. 1966), *aff'd* 377 F.2d 872, 879-80 (2d Cir. 1967).

² 17 U.S.C. §§ 1(c) and (d) (1964) reads:

Any person entitled thereto, upon complying with provisions of this title, shall have the exclusive right:

(c) . . . [to] perform it in public for profit. . . .

(d) To perform or represent the copyrighted work publicly. . . .

³ 255 F. Supp. at 197-98.

⁴ 283 U.S. 191 (1931).

the CATV system had made a substantial contribution to the viewing and hearing of the copyrighted works.⁵

The Supreme Court granted certiorari and, surprisingly,⁶ reversed on the ground that CATV does not "perform" within the purview of sections 1 (c) and (d) of the Copyright Act by receiving and carrying the copyrighted programs to their customers. Mr. Justice Stewart, utilizing a functional test that divides the participants in a public performance into two groups, exhibitors and audiences (or broadcasters and viewers), decided that CATV is on the viewer's side of the line since it is merely an extension of the viewer's antenna, *i.e.*, functionally it does no more than enhance the viewer's capacity to receive the broadcaster's signals.⁷

The Federal Communications Commission licenses television broadcasting stations and their power output partially on the basis of the station's B contour, an area in which reception acceptable to the median observer is theoretically expected to be available 90 per cent of the time at the best 50 per cent of the locations.⁸ Copyright licenses are usually based upon the number of potential viewers either within this B contour or actually within reception range. In this case the surveys conducted to determine the number of viewers within a station's actual viewing audience included CATV subscribers, who could receive that particular station by cable hook-up.⁹ Although such retransmission was prohibited by the broadcasters' licenses, the actual practice of the licensor was to charge the television stations on a basis that included CATV subscribers (the television station in turn charged the sponsoring advertisers on the same basis). Fortnightly offered to prove that this was the situation with regard to the licenses in question.¹⁰

⁵ 377 F.2d at 879; *see* 377 F.2d at 879-80 n.9, where the court said "... our decision would be unchanged if defendant's systems had made no use of amplifiers. . . ." The court also stated that the facts of this case were stronger than those in *Buck, Id.* at 878.

⁶ *See, e.g.*, 69TH ANNUAL REPORT OF THE REGISTER OF COPYRIGHT 8 (1967):

The decision of the [district] court, expressed in one of the most comprehensive, detailed, and carefully reasoned opinions ever issued in the copyright field. . . .

⁷ 392 U.S. at 398-99; *accord*, *Intermountain Broadcasting & Television Corp. v. Idaho Microwave, Inc.*, 196 F. Supp. 315, 327 (D. Idaho 1961).

⁸ *Sixth Report and Order, Television Allocations*, 17 FED. REG. 3905, 3915 (1952); 1 (part 3) P. & F. RADIO REG. 91:601, 91:630 (1952).

⁹ Brief for Petitioner at 91 n.118, *Fortnightly Corp. v. United Artists Television, Inc.* 392 U.S. 390 (1968).

¹⁰ 377 F.2d at 881. This was dealt with on appeal as follows:

CATV systems originally operated within or near the borders of such B contours. However, CATV has now attempted to carry programs from a distant station into the non-overlapping B contour of a local station. The effect is not only to supplement the broadcast coverage of the distant station but was also to make CATV a direct competitor of the local station within whose B contour the CATV system is located.¹¹ This occurred in *Fortnightly* when a local station began operating after the original suit was filed.¹² This retransmission into another area meant the loss of a potential market (the local licensee) for the copyright owner.¹³

The threat of this expanded mode of operation by the CATV systems was met by the broadcasting industry (and related interests) in several ways. One method was to institute an unfair competition suit for misappropriation of their copyrighted works. In *Cable Vision, Inc. v. KUTV, Inc.*,¹⁴ the court held that *Sears, Roebuck & Co. v. Stiffel Co.*¹⁵ and *Compco Corp. v. Day-brite Lighting, Inc.*¹⁶ were applicable, with the result that the broadcasters cannot use the *Int'l News Service v. Associated Press*¹⁷ misappropriation doctrine to enjoin CATV's use of their broadcast signals. On the other hand, the industry has finally persuaded the FCC to assume regulatory authority over CATV.¹⁸ The FCC actions in this direction were recently affirmed by the U.S. Supreme Court in *United States v. Southwestern Cable Co.*¹⁹ A third mode of attack against CATV has been through lobbying efforts to have legislation enacted that would

Since this offer of proof was rejected, we shall assume its accuracy, although it seems debatable, at least so far as the royalties were based upon revenues from local advertisers.

¹¹ Comment, *CATV Regulation—A Complex Problem of Regulatory Jurisdiction*, 9 B.C. IND. & COM. L. REV. 429, 429-30 (1968).

¹² 377 F.2d at 883 (Fairmont is within four B contours and Clarksburg is within one B contour of the five stations).

¹³ 377 F.2d at 878. See, NIMMER, COPYRIGHT § 107.31 (1968).

¹⁴ 335 F.2d 348, 351 (9th Cir. 1964), cert. denied, 370 U.S. 989 (1965).

¹⁵ 376 U.S. 225 (1964).

¹⁶ 376 U.S. 234 (1964).

¹⁷ 248 U.S. 215 (1918).

¹⁸ *Second Report and Order, Community Antenna Television Systems*, 31 FED. REG. 4540 (1966), 6 P. & F. RADIO REG. 2d 1717 (1966) (carriage rules).

¹⁹ 392 U.S. 157, 88 S. Ct. 1994 (1968). See also, Note, *CATV and Copyright Liability*, 80 HARV. L. REV. 1514, 1532 (1967), where it is stated that

[i]n a fast-changing field which involves many considerations besides protecting copyright property, it would appear wiser to continue to rely on FCC regulations which can be changed as needs require rather than impose judicially a rigid rule of general CATV copyright liability.

specifically make CATV liable for copyright infringement.²⁰ This proposal, however, has been cut from the proposed copyright revision.²¹ Finally, the industry has attempted to control CATV through copyright infringement actions.²² The *Fortnightly* decision brings this attempt to an abrupt halt.

In construing the Copyright Act, it has been held that a broadcast is a performance²³ and that it is a public performance even if the audience is not assembled, *e.g.*, the audience listens in many private homes.²⁴ On the other hand, not only do those who take signals from the air not perform, but the transmission of these signals is also not a performance.²⁵ The *Debaum* case went so far as to say that there was an implied license to anyone receiving the authorized broadcast to use it in any manner, and that there was a release of the statutory monopoly by the copyright owner for that particular licensed broadcast.²⁶

*Buck v. Jewell-LaSalle Realty Co.*²⁷ introduced the multiple performance doctrine. In this case the broadcast by the radio station was unlicensed. The co-defendant hotel received the broadcast of the phonograph record over its master radio and played the copyrighted work through loud speakers throughout the hotel. Both the broadcaster and the hotel were held liable as infringers. The court first noted that there was nothing in the Copyright Act that would prevent more than one performance in the instance where there was a single rendition (*i.e.*, multiple performance). The court then decided that the process of receiving a radio broadcast and then transducing it into audible sound is different from merely hearing the original music, and reasoned that this electronic reproduction was such a performance as contemplated by the Copyright Act. The court also

²⁰ H.R. 2512 § iii, 90th Cong., 1st Sess. (1967).

²¹ 113 CONG. REC. 3857-59 (daily ed. April 11, 1967).

²² 69TH ANNUAL REPORT OF THE REGISTER OF COPYRIGHT 10 (1967):

[*Columbia Broadcasting System v. Teleprompter Corp.*, 251 F. Supp. 302 (S.D.N.Y. 1965)] . . . is also a test case and one of the battles in a war between the television broadcasting industry on the one hand and the CATV system operators on the other.

See 80 HARV. L. REV., *supra* note 19, at 1514.

²³ *Jerome H. Remick & Co. v. American Auto. Accessories Co.*, 5 F.2d 411, 412 (6th Cir. 1925).

²⁴ *Jerome H. Remick & Co. v. General Electric Co.*, 16 F.2d 829 (S.D.N.Y. 1926).

²⁵ *Buck v. Debaum*, 40 F.2d 734, 735 (S.D. Cal. 1929). *E.g.*, Transmission by communications common carriers from networks to broadcasting stations.

²⁶ *Id.* at 735.

²⁷ 283 U.S. 191 (1931).

stated that "public reception for profit in itself constitutes an infringement" of the copyright owner's exclusive right to perform.²⁸

Buck was followed by *SESAC v. N.Y. Hotel Statler Co.*,²⁹ a case in which the only factual distinctions from *Buck* were that the broadcast by the radio station was licensed, the speakers were located only in the private guest rooms of the hotel, and the guests could select between two stations. This was held to be a performance within the *Buck* definition. The court stated that the guest's control over the speaker had no more effect on "performance" than a radio listener's control over his set derogated from the original public performance by the broadcaster.

After comparing the operation of a CATV system with the hotel operation in *SESAC* and with a hotel that supplies a receiving set in each guestroom that is wired to a master antenna,³⁰ it becomes apparent that a viable or logical distinction cannot be made. Yet without explicitly disapproving them, the Supreme Court in *Fortnightly* chose not to follow *Buck* and *SESAC*. Actual business practice probably supplies the rationale for this part of the Court's decision since the *Buck* doctrine has never been applied to its logical extreme by the two major performing right societies, ASCAP and BMI, in that they do not demand performing licenses from commercial establishments such as bars and restaurants which operate radio or TV sets for the amusement of their customers. However, such demands are made of hotels which operate in the manner of the LaSalle Hotel.³¹ Mr. Justice Stewart noted that,

The [*Buck*] decision must be understood as limited to its own facts . . .³²

[E]xisting "business relationships" would hardly be preserved by extending a questionable 35-year-old decision that in actual practice has not been applied outside its own factual context . . . so as retroactively to impose copyright liability where it has never been acknowledged to exist before.³³

Apparently the Court felt a hotel should not be liable but did not overrule *Buck* in order to preserve business practices.

²⁸ *Id.* at 198-201.

²⁹ *Society of European Stage Authors & Composers, Inc. v. New York Hotel Statler Co.*, 19 F. Supp. 1 (S.D.N.Y. 1937).

³⁰ NIMMER, COPYRIGHT § 107.42, at 412 (1968). (No copyright liability in such a case).

³¹ *Id.* § 107.41, at 410 n.204.

³² 392 U.S. at 396-97 n.18.

³³ *Id.* at 401 n.30.

Mr. Justice Stewart's statement that "petitioner's systems did not 'perform' the respondent's copyrighted works in any conventional sense of that term, or in any manner envisaged by the Congress that enacted the law in 1909"³⁴ could readily be applied to the *Buck* and *SESAC* cases. He also rejected the quantitative analysis that was used by the lower court as a test for the determination of copyright liability. In terms of television broadcasting, such a definition would have included even apartment house antenna owners and television manufacturers within the infringer group.³⁵ The dissent agreed that the *Buck* interpretation was not altogether satisfactory as an analytical matter. Mr. Justice Fortas read the *Buck* case as holding that the use of reproductive equipment to extend a broadcast to a significantly wider public than the broadcast would otherwise enjoy constitutes a "performance" and therefore it makes no difference whether the original performance was licensed or not.³⁶ *Buck* and *SESAC* are still relevant, however, for the proposition that utilization of broadcast signals for commercial purposes is deemed a copyright infringement.³⁷

The majority opinion divides the participants in a performance (in the area of broadcasting) into broadcasters who perform and viewers who do not perform. Since the basic function of CATV is little different from that function served by antenna equipment generally furnished by a TV viewer, CATV falls on the viewer side of the line. This is a crucial difference: the exclusive right is to the performance and not the viewing. Therefore, any viewing of a performance is outside the protection granted by the statute. Justice Fortas stated that the majority had placed one "outmoded interpretation" with a rule which he did not believe was an intelligible guide for the construction of the Copyright Act. He believed "[t]he issue here is whether, for this use, the owner of copyrighted material should be compensated."³⁸ Justice Stewart gave this little weight when he said that the only difference between CATV and an owner's antenna was that the former was owned by an entrepreneur.

The primary policy of the copyright law is to make available to the public the benefits of authors' works. This is accomplished by

³⁴ *Id.* at 395.

³⁵ B. KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT 104-05 (1967).

³⁶ 392 U.S. at 405-06.

³⁷ Hunke, *Community Antenna Television Operations as a "Performance": An Application of the Principle of Semantic Extension to the Federal Copyright Act*, 44 N. DAK. L. REV. 17, 40 (1967).

³⁸ 392 U.S. at 403.

granting to these authors certain exclusive rights in the use of these works.³⁹ The Statute of Anne, in which Parliament vested only certain limited rights while ending the unlimited common law property rights, divided the economic benefits resulting from such use between the author and the booksellers (copyright owners).⁴⁰ In *Fred Fisher Music Co. v. M. Witmark & Sons* the court analyzed the congressional purpose in creating a renewal term, granted only to the author, as an attempt by Congress to divide the profits between the author and the copyright proprietor (assignee).⁴¹ Even the doctrine of fair use is based on whether the unauthorized use diminishes the possibility of economic gain which should accrue to the copyright owner.⁴²

The Court's functional rule does not consider these economic aspects of the case.⁴³ Nevertheless, on the facts of this case, the outcome is correct because the CATV subscribers were included in the survey that was used to compute the compensation for the copyright proprietor, even though the licenses nominally prohibited retransmission by CATV systems.

However, the rule announced by Justice Stewart causes problems when CATV carries programs out of the area for which the copyright owner is compensated (he is, therefore, not compensated and loses a future market), or when a hotel or bar uses the program as an attraction to enable it to get more customers and the resulting profit is not shared with the copyright owner, or when a TV station refuses to agree to or pay a license fee that includes CATV subscribers, but still charges advertising on a basis that includes CATV subscribers. Using this new rule there is a question as to whether translator and

³⁹ *Mazer v. Stein*, 347 U.S. 201, 219 (1954); KAPLAN, *supra* note 35 at 75 (Copyright has evidently more to do today with mobilizing the profit-propelled apparatus of dissemination); NIMMER, COPYRIGHT, § 3.1, at 4:

Implicit in this rational is the assumption that in the absence of such public benefit the grant of a copyright monopoly to individuals would be unjustified.

⁴⁰ Morris, *The Origins of the Statute of Anne*, 12 ASCAP COPYRIGHT LAW SYMPOSIUM 222, 258 (1963).

⁴¹ 318 U.S. 643, 648 (1943) (our copyright laws were based largely on the Statute of Anne); see KAPLAN, *supra* note 35, at 112.

⁴² NIMMER, COPYRIGHT, § 145, at 646:

[Doctrine of fair use] can best be explained by looking to the central question of whether the defendant's work tends to diminish or prejudice the potential sale of the plaintiff's work.

See KAPLAN, *supra* note 35, at 67.

⁴³ 36 GEO. WASH. L. REV. 672, 674 (1968) (suggestion that a good test should include the market element); Both broadcasters and CATV operators profit through the use of the copyrighted films.

satellite stations should not be considered as free from copyright liability.

The idea that the operation of CATV is based upon the use of other people's property⁴⁴ can be conceptualized as an unfair trade or misappropriation doctrine instead of a copyright doctrine. If the result in the *Buck* case actually stems from this idea that it was a wrongful use of another's property or that the hotel was benefiting from another's efforts at no cost to itself, then *Fortnightly* ends the *Buck* doctrine in a manner analogous to the way *Sears* and *Compco* isolated the *INS* misappropriation doctrine.⁴⁵

In this respect *Fortnightly* represents a proper exercise of judicial power. The Copyright Act does not give the courts power to act in this preempted area except under the enumerated rights.⁴⁶ But the courts have had a tendency to fill out the interstices of the copyright law when its protection is inadequate (as indicated by both majority and dissent) and when they feel that someone's property has been taken.⁴⁷ In the past the courts have yielded to this desire and have given additional protection through use of state law to determine when there is a publication and resulting release of common law copyright protection,⁴⁸ through use of the misappropriation doctrine,⁴⁹ and through the enlargement of the scope of the copyright law by broadly construing the term "to perform."⁵⁰ The *Sears* and *Compco* cases have curtailed the former two means of avoiding the harshness of the Copyright Act while *Fortnightly* has had the same effect on the latter. These three cases are consistent with Judge

⁴⁴ 392 U.S. at 403; cf., Hunke, *supra* note 37, at 47:

This position [that CATV is taking a property right] assumes, of course, that the copyright statute should grant an unlimited rather than a limited property right which is really the central issue.

⁴⁵ KAPLAN, *supra* note 35, at 90:

Strictly, *INS* was now a stray . . . , but it was a handy citation for state judges. . . .

⁴⁶ But cf., Comment, *Copyright Pre-emption and Character Values: The Paladin Case as an Extension of Sears and Compco*, 66 MICH. L. REV. 1018, 1030 (1968); KAPLAN, *supra* note 35, at 40.

⁴⁷ Price, *The Moral Judge and the Copyright Statute: The Problem of Stiffel and Compco*, 14 ASCAP COPYRIGHT LAW SYMPOSIUM 90, 102-03 (1966); 66 MICH. L. REV. *supra* note 46, at 1030,

[T]he whole trend toward greater use of copyright-related doctrines may be viewed as a creative and commendable judicial response to the inadequacies of the federal Act. . . .

⁴⁸ E.g., *Cable Vision, Inc. v. KUTV, Inc.*, 335 F.2d 348 (9th Cir. 1964).

⁴⁹ *Int'l News Service v. Associated Press*, 248 U.S. 215 (1918).

⁵⁰ *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191 (1931).

Hand's earlier attempts⁵¹ to reject judicial power that goes beyond the Copyright Act.⁵²

Fortnightly has not advanced or broadened the copyright law, but at the same time it has probably come closer to the true meaning of the phrase "to perform." It is clear that the Copyright Act is inadequate⁵³ and that this decision does not attempt to repair this inadequacy. This is a job for Congress and the Court wisely left it as such,⁵⁴ since the policy of the Act has become almost impossible to apply in this age of CATV, high speed copiers, and satellite relays. A copyright monopoly should result only from a specific legislative grant. The Court in *Southwestern Cable* protected the copyright owners' interests through FCC regulation, while in *Fortnightly* the Court protected the public interest of free access to released materials. Further reconciliation of these two interests should be left to Congress.⁵⁵

EVIDENCE—ATTORNEY-CLIENT PRIVILEGE—ASSERTION BY CORPORATION NOT A BAR TO DISCOVERY BY STOCKHOLDERS—*Garner v. Wolfinbarger*, 280 F. Supp. 1018 (N.D. Ala. 1968), appeal docketed, No. , (5th Cir. 1968).—Garner and other stockholders of the First American Life Insurance Company brought a class action seeking damages for alleged violations of the federal securities acts, and the Securities Act of Alabama.¹ By a subpoena duces tecum which was treated as a motion to produce, the court ordered the corporation to produce certain documents pertaining to the matters in contro-

⁵¹ *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 664 (2d Cir. 1955) (dissenting opinion); *G. Recordi & Co. v. Haendler*, 194 F.2d 914 (2d Cir. 1952); *R.C.A. Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940).

⁵² Price, *supra* note 47, at 102-05.

⁵³ *Id.* at 113:

But there is the nagging feeling that the reason for nonprotection isn't a careful balancing on the part of Congress; rather, it is the inability of the legislators to resolve incredibly difficult problems which strike at the heart of copyright structure.

⁵⁴ 392 U.S. at 401; *contra*, Price, *supra* note 47 at 114, 115.

⁵⁵ See Gold, *Television Broadcasting and Copyright Law: The Community Antenna Television Controversy*, 16 ASCAP COPYRIGHT LAW SYMPOSIUM 170, 191-192 (1968).

¹ Petitioner-Defendant's Memorandum in Support of Petition For Interlocutory Appeal at 1, *Garner v. Wolfinbarger*, 280 F. Supp. 1018 (N.D. Ala. 1968), appeal docketed, No. —, (5th Cir. 1968).

versy.² The corporation did not produce the documents. On the taking of his deposition, R. Richard Schweitzer, president of First American Life Insurance, asserted a claim of privilege with respect to communications with company attorneys, and accordingly refused to respond to certain questions. Thereafter, the plaintiff moved the court to order production of the documents and answers to the oral interrogatories presented to Schweitzer. The point at issue on the motions was whether communications prior to the filing of the suit between the corporations and its attorneys³ were privileged as to the complaining stockholders.

In a short opinion citing only two English cases,⁴ the court ruled that the stockholders were entitled to discovery of the communications.⁵ Both English cases relied to a large extent upon principles of trusts, and stressed the directors' status as fiduciaries for the corporate stockholders.⁶ By resting its decision upon the right of the

² The precise nature of the documents in question is not clear. The court used the terms "documents" and "communications." 280 F. Supp. at 1019. Clearly the subject matter under dispute involves communications between the defendant corporation and its attorneys.

³ Schweitzer became president of First American after the suit was filed. Prior to that time, he was one of the attorneys for First American, and at least part of the communications in question had taken place between Schweitzer as an attorney and First American. *Id.* However, although mentioned by the court, this dual role does not appear to have any relevance to the decision.

⁴ *Gouraud v. Edison Gower Bell Tel. Co. of Europe*, 57 L.J. Ch. 498 (1888); *Dennis and Sons v. West Norfolk Farmers' Co.*, [1943] 2 All E.R. 94 (Ch.). In *Gouraud*, plaintiff stockholder sued to set aside an agreement between the defendant directors and another corporation. The court held that advisory documents obtained from corporate attorneys with the plaintiff's money may not be withheld. In *Dennis and Sons*, plaintiff stockholder and defendant director disagreed over the proper construction of an article in the charter granting annual rebates to stockholders from earnings. The directors employed a firm of accountants to construe the article regulating the rebate, and the court held that the accountant's report was not privileged.

⁵ 280 F. Supp. at 1019.

⁶ In *Gouraud* the court stated, "[O]n the general principle that obtains in partnership actions, and also in actions by a *cestui que trust* against a trustee—namely, that a party cannot resist production of documents which have been obtained by means of payment from the moneys belonging to the party applying for their production." 57 L.J. Ch. at 499, 500. In *Dennis and Sons*, the court applied the rule that a *cestui que trust* is entitled to see cases and opinions submitted and taken by the trustee, unless the trustee takes the opinion for his own defense in an action by the *cestui*. [1943] 2 All E.R. at 96. *But see*, Gower, *Some Contrasts Between British and American Corporation Law*, 69 HARV. L. REV. 1369, 1380 (1956), where it is indicated that a British stockholder as such has no right to inspect corporate books and records; *see* *Butt v. Kelson*, [1952] Ch. 197 (C.A. 1951) which indicates that the British courts will look to the articles of association to determine the extent of a shareholder's right to inspection.

stockholder to inspect the books and records of the corporation, the court incidentally raises some ancillary issues,⁷ but more significantly, it jeopardizes the right of the corporation to assert the attorney-client privilege, contrary to the assurance of *Radiant Burners, Inc. v. American Gas Ass'n.*⁸

Communications between a corporation and its attorneys are eligible for the attorney-client privilege in federal courts by virtue of the evidentiary exclusion contained in the Federal Rules of Civil Procedure.⁹ Although the right of the corporation to exercise the attorney-client privilege has apparently never been challenged in the Alabama courts, there is no reason to believe that this right would be denied.¹⁰ Consideration of the philosophy underlying the attorney-

⁷ It is generally accepted that a stockholder has a right either under common law or by virtue of state statute to inspect the books and records of the corporation. *Guthrie v. Harkness*, 199 U.S. 148, 153 (1905); 5 W. FLETCHER, PRIVATE CORPORATIONS § 2213 (Perm. ed. 1967); ALA. CODE tit. 10, § 21(46) (Supp. 1967). Under § 21(46) of the Alabama Business Corporations Act, a fine is imposed upon any officer or agent who without reasonable cause, refuses to allow the stockholder to inspect the books and records for any proper purpose. If as in the present case, a court in construing the scope of discovery under the Federal Rules of Civil Procedure recognizes that the stockholder's rights of inspection are more extensive than those of the ordinary litigant, the following issues are raised: a) Should the court consider all the elements, such as burden of proof and proper purpose, which are part of the common law or state created right? b) Is this decision the equivalent of a holding that the stockholder has been wrongfully denied his rights of inspection? If so, wouldn't the decision be res judicata for a suit brought by the stockholder to collect his statutory fine? If a fine is to be imposed upon the officer or agent, is the officer or agent entitled to a jury trial on the issues of proper purpose and burden of proof? See generally ILL. ANN. STAT. ch. 32, § 157.45 (Smith-Hurd 1954); *McGregor v. Thor Power Tool Co.*, 72 Ill. App. 2d 24, 217 N.E.2d 822 (1966).

⁸ 320 F.2d 314 (7th Cir. 1963), *rev'g* 207 F. Supp. 771 (N.D. Ill. 1962), *cert. denied*, 375 U.S. 929 (1963). Prior to the district court decision in *Radiant Burners*, it was generally assumed that corporations were entitled to the attorney-client privilege, Simon, *The Attorney-Client Privilege as Applied to Corporations*, 65 YALE L.J. 953 (1956).

⁹ FED. R. CIV. P. 26(b), 34. "Privileged" as it is used in the Federal Rules of Civil Procedure refers to privileges recognized by the law of evidence, *United States v. Reynolds*, 345 U.S. 1, 6 (1953). In the principal case production was sought by way of a subpoena duces tecum, but the subpoena duces tecum cannot overcome a claim of privilege, *NLRB v. Harvey*, 264 F. Supp. 770, 772-73 (W.D. Va. 1966); 5 J. MOORE, FEDERAL PRACTICE ¶ 45.05[1] at 1721 (2d ed. 1968).

¹⁰ ALA. CODE tit. 7, § 438 (1958) codifies the attorney-client privilege, but it has been held to be merely a statement on privilege as applied by the courts, *Ex parte Enzor*, 270 Ala. 254, 256, 117 So. 2d 361, 362 (1960). The attorney-client privilege for corporations has apparently never been challenged in Alabama, but in *Melco System v. Receivers of Trans-American Ins. Co.*, 268 Ala. 152, 163, 105 So. 2d 43, 52 (1958), the receivers of the corporation were allowed to assert the privilege against creditors. In

client privilege indicates no basis for distinguishing the corporate client from any other client. The purpose of the privilege is to facilitate the workings of our legal system by encouraging the client to confide in his attorney and thus arguably to promote truth finding. In this respect it is distinguishable from other evidentiary privileges which are based upon respect for individual rights in spite of the fact that they *hinder* truth finding.¹¹ Since disclosure to the attorney is the protected value, it is immaterial whether or not the corporation may exercise personal rights.¹²

If the corporation is entitled to assert the attorney-client privilege, it may be assumed that the documents challenged in *Garner v. Wolfenbarger* were privileged,¹³ in the absence of a condition destroying the privilege. One rationale for the court's decision may be that the relationship between the stockholder and the corporate director operates to so destroy it.

For purposes of the attorney-client privilege, a client may consist of more than one person under certain circumstances, primarily where several persons have a common interest in a transaction or a business unit. Communications between an attorney and a member of the group having the common interest may be privileged from discovery by a third party, not a member of the common interest group. The problem arises when two members of the common interest group become involved in litigation with each other concern-

Parish v. Gates, 29 Ala. 254, 259 (1856) the court said, "There is, perhaps, no principle of law which rests on a sounder basis, or which is supported by a more uniform chain of adjudication, than that which holds all information acquired by an attorney from his client, touching matters that come within the ordinary scope of professional employment, as privileged communications."

¹¹ *Radiant Burners, Inc. v. American Gas Ass'n*, 320 F.2d 314, 322 (7th Cir. 1963), *rev'd* 207 F. Supp. 771 (N.D. Ill. 1962), *cert. denied*, 375 U.S. 929 (1963); *American Cyanamid Co. v. Hercules Powder Co.*, 211 F. Supp. 85, 88 n.12 (D. Del. 1962); *Symposium—the Lawyer-Client Privilege: Its Application to Corporations*, 56 NW. U.L. REV. 235, 241 (1961).

¹² The constitutional privilege against self-discrimination has been denied to corporations because of their impersonal nature. *United States v. White*, 322 U.S. 694, 699 (1944).

¹³ The mere fact of a legal consultation is *prima facie* the establishment of the professional relationship, 8 WIGMORE, EVIDENCE § 2296 (McNaughten Rev. 1961). Wigmore describes the attorney-client privilege:

Where legal advice of any kind is sought from a professional legal advisor in his capacity as such, the communications relating to that purpose, made in confidence by the client, are at his instance permanently protected from disclosure by himself or by the legal advisor, except the protection may be waived.

8 WIGMORE, EVIDENCE § 2292 (McNaughten Rev. 1961).

ing the subject of the common interest. When this happens, it is generally held that the attorney-client privilege may not be used to prevent discovery by either member, because both had an interest in the subject of any communications to the attorney.¹⁴

Hence the question is whether both the stockholder and the director of a corporation are included within the perimeter of the corporate client, so that one may not invoke the attorney-client privilege against the other, in a situation where the corporate director communicates with the corporate attorney on a matter for the benefit of the corporation as a whole.¹⁵ The federal courts have considered the question of who is the corporate client.¹⁶ Generally the problem arises in a context in which the corporation is asserting that an employee is the client and that a statement from that employee to the corporate attorneys is privileged. In *Hickman v. Taylor*,¹⁷ the Supreme Court seems to have eliminated the notion that statements from employees are automatically privileged.¹⁸ This lead was followed

¹⁴ [W]hen the same attorney acts for two parties having a common interest and each party communicates with him . . . [t]he communications are clearly privileged from disclosure at the instance of a third person. Yet they are not privileged in a controversy between the two original parties. . . .

⁸ WIGMORE, EVIDENCE § 2312, at 603-04 (McNaughten Rev. 1961).

See *In re Bourne*, 38 Misc. 2d 838, 238 N.Y.S.2d 816 (1963).

¹⁵ Simon, *The Attorney Client Privilege as Applied to Corporations*, 65 YALE L.J. 953, 968 (1956), comments in passing that the stockholders might be entitled to inspect opinions of counsel along with other corporate records.

¹⁶ There is some question as to whether or not a federal court is bound by state law in applying privileges, especially in diversity cases. *Ortiz v. H. L. H. Products*, 39 F.R.D. 41, 43-44 (D. Del. 1965), cites cases going both ways but concludes that the privilege is a matter of procedural law; *accord*, *Belback v. Wilson Freight Forwarding*, 40 F.R.D. 16 (W.D. Pa. 1966); *Scourtes v. Fred W. Albrecht Grocery*, 15 F.R.D. 55 (N.D. Ohio 1953). Professor Moore indicates that the general frame of reference must be state law, but that the federal courts should have a measure of latitude in deciding for themselves whether a matter is privileged. 4 J. MOORE, FEDERAL PRACTICE ¶ 26.23[9], at 1482-84 (2d Ed. 1968). Several factors point to federal procedural law in the principal case: (a) the plaintiff has a federal cause of action; (b) neither the Fifth Circuit nor the District Court for the Northern District of Alabama consider themselves bound by state law on evidence, *Monarch Ins. Co. v. Spach*, 281 F.2d 401, 410 (5th Cir. 1960); *Ex parte Sparrow*, 14 F.R.D. 351, 353 (N.D. Ala. 1953); (c) the specific evidentiary problem has never been raised in Alabama so there is no state case law, *see* note 10 *supra* and accompanying text.

¹⁷ 329 U.S. 495 (1947).

¹⁸ *Id.* at 508. However this statement and the inferences therefrom could be considered dictum. Cf. *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357 (D. Mass. 1950), which suggests that statements of *any* employees to an attorney may be privileged.

in *Philadelphia v. Westinghouse Electric Corporation*¹⁹ which held that if a statement from an employee is to be privileged, the employee making the statement must be in a position to take a substantial part in the decision which the corporation would make after receiving advice from the attorney; the employee must be a member of the "control group."²⁰

Presumably, the same approach would be followed even though the litigation were between the corporation and one of its employees. The employee would not automatically be excluded or included in the group that is called the corporate client; rather, an investigation would be undertaken to determine the employee's specific relation to the litigation. By analogy, it would seem inconsistent to adopt the view that stockholders as a class are automatically included within the term corporate client, and that therefore the stockholder and the corporate director are common clients of the corporate attorneys.

An alternative rationale for the decision in *Garner v. Wolfenbarger* is that the inspection rights of the stockholder supercede the attorney-client privilege.²¹ Regardless of the terminology that is used to describe the relationship between the stockholder and the corporation, the stockholders have a clear common law or statutory right to examine the books, papers and records of the corporation.²² In the present case, the applicable statute is § 21(46) of the Alabama Business Corporation Act.²³ In delineating the scope of the stockholder's right to inspect, the statute uses the words "books and records of account, minutes, and records of stockholders."²⁴ A predecessor of § 21(46)²⁵ used the terms "books, records, and papers" but this lan-

¹⁹ 210 F. Supp. 483 (E.D. Pa. 1962).

²⁰ *Id.* at 485. The "control group" definition has been followed in *Natta v. Hogan*, 392 F.2d 686, 692 (10th Cir. 1968); *Garrison v. General Motors Corp.*, 213 F. Supp. 515, 517-18 (S.D. Cal. 1963). Another group of cases starting with *Zenith Radio Corp. v. Radio Corp. of Am.*, 121 F. Supp. 792, 794 (D. Del. 1954), follow what is called a "document by document" approach, and thus the origin of the document is one of the factors considered. See also *Radiant Burners, Inc. v. American Gas Ass'n*, 320 F.2d 314 (7th Cir. 1963).

²¹ It is sometimes said that a privilege is absolute, but if the statement is true, it has exceptions. See *Hyman v. Jewish Chronic Disease Hosp.*, 15 N.Y.2d 317, 206 N.E.2d 338, 258 N.Y.S.2d 397 (1965). An attorney may not advise on the further commission of a crime and have the statements privileged, *Ex parte Enzor*, 270 Ala. 254, 260, 117 So. 2d 361, 365 (1960).

²² Authority cited note 7 *supra*.

²³ ALA. CODE tit. 10, § 21(46) (Supp. 1967).

²⁴ *Id.*

²⁵ Act of July 30, 1931, ch. 274, § 7001(1), [1931] Gen. Acts Ala. 762 (repealed 1959).

guage in no way limited the stockholder's common law rights of inspection.²⁶ In light of its opinion in *Smith v. Flynn*,²⁷ the Supreme Court of Alabama has apparently not taken the change in statutory language to indicate a legislative intent to limit the scope of the stockholder's rights.

In *Smith v. Flynn*, the plaintiff stockholder had requested an inspection of the expense account of the president of the corporation, but was refused. Thereafter he brought an action for his ten percent statutory damages, even though he had in the meantime obtained access to the document. Quoting from *Foster v. White*,²⁸ the supreme court stated that the purpose of § 21(46)

[I]s to protect small and minority stockholders against the power of the majority, and against the mismanagement and faithlessness of agents and officers, by furnishing mode and opportunity to ascertain, establish and maintain their rights, and to intelligently perform their corporate duties. . . . It was intended to enlarge . . . the right, rendering it consistent and coextensive with the stockholder's right, as a common owner of the property, books and papers of the corporation, and with the duties and obligations of the managing officers, as agents and trustees.²⁹

The only limitations to the right of inspection recognized by the court were that the right shall "be exercised at reasonable and proper times" and that "it shall not be exercised from idle curiosity, or for improper or unlawful purposes,"³⁰ with the burden upon the corporate officer to show that the stockholder's demand was improper, or that he had reasonable cause to refuse inspection.³¹

Notwithstanding the language in *Smith v. Flynn*, courts in Alabama and in other states recognize that the right of inspection is not without limit. It is tailored to conform to the circumstances, and thus one of the considerations is the type of document that is being sought.³² Stockholder lists are generally treated more liberally by the

²⁶ *Loveman v. Tutwiler Inv. Co.*, 240 Ala. 424, 199 So. 854 (1941).

²⁷ 275 Ala. 392, 155 So. 2d 497 (1963).

²⁸ 86 Ala. 467, 6 So. 88 (1889).

²⁹ *Smith v. Flynn*, 275 Ala. 392, 397, 155 So. 2d 497, 501 (1963).

³⁰ *Id.*

³¹ *Id.* at 398, 155 So. 2d at 501.

³² For examples of flexible orders taking account of special circumstances see *Hyman v. Jewish Chronic Disease Hosp.*, 15 N.Y.2d 317, 206 N.E.2d 338, 258 N.Y.S.2d 397 (1965); *News-Journal Corp. v. State ex rel Gore*, 136 Fla. 620, 187 So. 271 (1939). In *State ex rel Jones v. Ralston Purina Co.*, 358 S.W.2d 772 (Mo. 1962) the court refused to allow a stockholder to inspect trial balances and other financial work papers. In *Tucson Gas and Elec. Co. v. Schantz*, 5 Ariz. App. 511, 428 P.2d 686 (1967) the stockholder was allowed to inspect the ballots cast in an election for directors.

courts than are documents relating to financial matters.³³ It is recognized that the stockholder has his right to inspect only by virtue of his ownership interest in the corporation, and therefore it is generally held that the documents he seeks must be in furtherance of his interest as a stockholder.³⁴ However, in Alabama the fact that the stockholder is engaged in litigation with the corporation, as in the present case, does not eliminate his inspection rights or make his purpose "improper."³⁵ Presumably the stockholder has the same rights to general corporate information, as distinguished from materials prepared by the directors for their own defense, after he begins litigation against the corporation as he had before.³⁶

Whether privileged documents are within the scope of the stockholder's inspection rights is a question that has not been litigated. Banks sometimes resist the production of records on the grounds that the information is privileged, but generally unsuccessfully.³⁷ In response to a claim that confidential inter-office letters were privileged, the Supreme Court of Florida indicated that the stockholder is entitled to any information, including trade secrets and privileged confidential communications, if the stockholder can show that these items affect the value of his stock.³⁸ If the sole criterion for determining whether a stockholder may inspect is the value of the inspection to the individual stockholder, it would seem that very few items could be absolutely immune from inspection.

In conflict with the individual stockholder's interest in inspecting the books and records of the corporation is the interest of the rest of the stockholders in having no undue interference with the normal operating affairs of the corporation. This concept has been embodied

³³ *Goldman v. Trans-United Indus.*, 404 Pa. 288, 292, 171 A.2d 788, 791 (1961); *R. BAKER AND W. CARY, CORPORATIONS, CASES AND MATERIALS* 733 (3d ed.-unabridged 1959).

³⁴ *State ex rel Armour v. Gulf Sulphur Corp.*, 233 A.2d 457, 462 (Super. Ct. Del. 1967); *see Hutson v. Brown*, 248 Ala. 215, 26 So. 2d 907 (1946); *News-Journal Corp. v. State ex rel Gore*, 136 Fla. 620, 187 So. 271 (1939).

³⁵ *Burns v. Drennen*, 220 Ala. 404, 405, 125 So. 667, 668-69 (1930).

³⁶ *But see Barnett v. Barnett Enterprises*, 182 So. 2d 728, 732 (Ct. App. La. 1966) which held that a plaintiff stockholder's procedural rights, as to discovery, are limited by the same provisions as are applicable to any other litigant, pursuant to the state statutes.

³⁷ Allowing inspection: *Guthrie v. Harkness*, 199 U.S. 148 (1905); *Durnin v. Allentown Fed. Savings and Loan Ass'n*, 218 F. Supp. 716 (E.D. Pa. 1963); *contra, Daurelle v. Traders Fed. Savings and Loan Ass'n*, 143 W. Va. 674, 104 S.E.2d 320 (1958).

³⁸ *News-Journal Corp. v. State ex rel Gore*, 136 Fla. 620, 624, 187 So. 271, 272 (1939).

in the statement that the right of inspection cannot be exercised for improper or unlawful purposes, *detrimental* to the corporation or the interests of the other stockholders.³⁹ Since every inspection by a stockholder is more or less a detriment to the corporation, in the sense that the time of some employee is utilized, the task is to reconcile the competing interests with respect to any given document or type of inspection.⁴⁰ In *Hutson v. Brown*,⁴¹ the Supreme Court of Alabama denied a stockholder's request for inspection upon a showing that the stockholder was a competing mortician, and was using the financial data in an effort to cast doubt upon the financial stability of the defendant corporation.

Despite the expansive language of the Supreme Court of Alabama in *Smith v. Flynn*, it expressly retained the requirement that the right of inspection not be exercised for "improper" purposes.⁴² The requirement that the purpose of inspection not be improper had its origin in Alabama with *Foster v. White*,⁴³ and was used in *Hutson v. Brown*⁴⁴ to deny the right of inspection where the resultant benefit of inspection was clearly outweighed by the damage to the corporation and the rest of the stockholders.

The attorney-client privilege is predicated on the assumption that our legal machinery will run more smoothly if the client is encouraged to confide fully in his attorney. This is accomplished by giving the client immunity from any disclosures he makes to his attorney during the course of seeking legal advice. Under these premises, it should follow that to the extent the attorney-client privilege is eliminated, the client will be discouraged from confiding in his attorney. In the context of the present case, any increase in the stockholder's rights to inspect privileged documents would result in a decrease in the amount of information conveyed by corporate management to the corporate attorneys. The question therefore is whether it is more beneficial to the stockholders to have the right to inspect all correspondence and documents, or whether their best interests require that the management of the corporation be encour-

³⁹ *Hutson v. Brown*, 248 Ala. 215, 216, 26 So. 2d 907 (1946).

⁴⁰ *State ex rel. Armour v. Gulf Sulphur Corp.*, 233 A.2d 457, 462 (Super. Ct. Del. 1967). See *News-Journal Corp. v. State ex rel. Gore*, 136 Fla. 620, 623, 187 So. 271, 272 (1939); *Electro-Formation, Inc. v. Ergon Research Lab.*, 284 Mass. 392, 395, 187 N.E. 827, 828 (1933).

⁴¹ 248 Ala. 215, 26 So. 2d 907 (1946).

⁴² 275 Ala. at 307, 155 So. 2d at 501.

⁴³ 86 Ala. 467, 469, 6 So. 88, 89 (1889).

⁴⁴ 248 Ala. 215, 26 So. 2d 907 (1946).

aged to rely upon corporate counsel. Conceivably, under a given set of facts, the right to inspect all documents would be more important. However, the solution should not be determined by merely labeling the stockholder a beneficiary or the director a trustee. Rather each case should consider all the circumstances including the harm and benefit that would result from the production or non-production of the specific document in question.

